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FOR THE YEAR ENDED DECEMBER 31.

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AGNICO MINES LTD.

ANNUAL REPORT 1969

AGNICO MINES LIMITED

(Incorporated under the laws of the Province of Ontario)

Executive and Head Office	Suite 1101, 365 Bay Street Toronto, Ontario
Mine Office	Cobalt, Ontario
Directors	ARCHIE BASEN SAMUEL GELLER WILLIAM L. HOGARTH, Jr. PAUL PENNA NORMAN B. SHERIFF JOHN L. VORBACH, Jr.
Officers	NORMAN B. SHERIFF, *President* PAUL PENNA, *Vice-President and Managing Director* JEAN GELLER, *Secretary-Treasurer*
Mine Manager	GORDON W. KIRK
Consulting Geologist	W. A. HUBACHECK, B.Sc., P.Eng.
Transfer Agent and Registrar	Guaranty Trust Company of Canada Toronto, Ontario
Auditors	Starkman, Kraft, Rothman, Berger & Grill Chartered Accountants Toronto, Ontario
Bankers	Canadian Imperial Bank of Commerce Toronto, Ontario (City Hall Branch)
Shares Listed	Toronto Stock Exchange, Toronto, Ontario Canadian Stock Exchange, Montreal, Quebec
Annual Meeting	June 30, 1970, 9:30 in the forenoon (Toronto Time) Royal York Hotel 100 Front Street West Toronto, Ontario

DIRECTORS' REPORT

To the Shareholders:

The Directors present the audited financial statements of the Company for the year ended December 31, 1969, and also the report of the Mine Manager which provides details of mine operations, development and exploration results for this period. The following is a review of these reports:

Financial

Gross value of metals produced during the year at the Company's mine in the Cobalt area of Ontario amounted to $1,576,829 compared with $1,259,104 the previous year. Cash flow from operations, which includes custom milling, royalty and sundry income items, totalled $441,511 compared to $339,233 in 1968.

Additional income, representing the profit from the sale of securities, amounted to $50,454. The corresponding figure in 1968 was $6,122. Net income for the year was $130,408 compared to $179,888 in 1968.

Transactions re Eagle Gold Mines Limited

It is noted that the attached financial statements reflect certain post balance sheet transactions relevant to the Company's investment in shares of Eagle Gold Mines Limited.

In 1967, your Company purchased 200,000 shares of Eagle Gold Mines Limited at a cost of $265,160. During 1969, an additional 17,300 shares were purchased at a cost of $79,048, bringing to a total of 217,300 shares held in this company at a total cost of $344,208. Subsequent to the year end, this shareholding was liquidated, the proceeds amounting to $289,027. This resulted in a net loss in this transaction amounting to $55,181.

Excluding this extraordinary item, income for the year amounted to $185,589, a moderate increase over that of the previous year.

At a meeting of the Directors of Agnico Mines Limited held on June 8, 1970, the directors agreed to loan Eagle Gold Mines Limited the sum of $800,000 by purchasing securities of Eagle consisting of $800,000 principal amount of debentures accompanied by warrants to purchase 800,000 treasury shares of Eagle.

The total cost of these securities was $800,000. The debentures have a term of five years, bear interest at a rate of 1½% above a Canadian Chartered Bank prime interest rate in effect from time to time, and are secured by a first charge on all real and immovable property of Eagle Gold Mines Limited.

The warrants entitling the purchase of shares have a term of five years and are exercisable at a price of $1.00 per share for the first three years and at $1.50 per share for the remaining two years. Pursuant to a report by the Canadian Stock Exchange, the Company has agreed that it will not exercise any warrants for a period of 6 months following June 1, 1970.

Pending receipt by Eagle of equity financing, the directors of Agnico Mines Limited have authorized an unsecured demand loan by the Company to Eagle in an amount up to $150,000 at an interest rate of 1% above a Canadian Chartered Bank prime interest rate from time to time.

The following is a brief description of the principal assets of Eagle Gold Mines Limited which constitute the security for the $800,000 principal amount of debentures:

Eagle Gold Mines Limited holds a gold property in the Joutel Area of the Province of Quebec. The property comprises approximately 925 acres of which 486.7 acres are held under mining lease the remainder under development licences. The property has been extensively explored both by surface diamond drilling and underground work.

The property is developed by a three-compartment shaft sunk to a depth of 1860 feet, complete with hoisting equipment, pumps, air compressor, as well as surface buildings, including the shaft headframe, main service building, office-shops-warehouse complex, together with the concrete foundations for the mill building and other equipment.

Eleven level stations have been cut at 150-ft. intervals from the 300 foot horizon to the 1850 foot horizon. A total of 18,000 feet of crosscutting and drifting, together with 3,742 feet of raising and 34,500 feet of underground drilling has been carried out on the six principal levels which have been under development. This work also includes an appreciable amount of stope development. A total of some 36,714 tons of ore is stockpiled on surface.

Eagle Gold Mines Limited also owns 14 staff houses, two blocks of row housing each of six units, and trailer accommodation for 125 persons in the nearby Joutel Townsite.

Prior to the recent decision to defer bringing its property into production in view of increased cost estimates and the currently existing market price for gold, Eagle Gold Mines Limited had expended approximately $8.5 million for exploration, underground work, buildings and equipment. The company has discontinued this construction program and has placed the property on a care and maintenance basis.

Ore reserves estimated by the mine staff are as follows: Medium grade proven and probable, 492,974 tons of an average grade of 0.35 ounce of gold per ton; low grade proven and probable, 260,935 tons of an average grade of 0.238 ounce

of gold per ton. These estimates include a 15% allowance for dilution.

The drill-indicated possible reserves are estimated to be 2,397,748 tons of an average grade of 0.285 ounce of gold per ton, including a 15% allowance for dilution.

Owing to the substantial additional cost to complete the construction of the required mining facilities (estimated at $5.2 million) and the probable return on the basis of existing market prices for gold and other related economic factors, it was concluded that the proposed production program, predicated upon the aforementioned tonnages and grades, would be uneconomic under prevailing circumstances. A substantial increase in the price of gold would materially improve the economic considerations.

As previously mentioned, Eagle Gold Mines Limited has discontinued construction of the required mining facilities and has negotiated settlement of the amounts due to its suppliers. To fund such settlements and the care and maintenance of its property, Eagle has arranged the debt financing of $800,000 consisting of $800,000 principal amount of debentures which were purchased by Agnico Mines Limited, and further equity financing by way of private placement of treasury shares in the additional sum of approximately $250,000.

It is the opinion of the directors that the substitution of the former investment in shares of Eagle Gold Mines Limited and the additional investment involved in the purchase of the $800,000 principal amount of debentures of Eagle Gold Mines Limited and the leverage potential of the attached warrants, is consistent with the philosophy and objectives of Agnico Mines Limited as a company engaged in mining, exploration and related mineral exploration pursuits.

Mine Operations (Agnico)

Output of both silver and cobalt from your Company's mining operations during 1969 was appreciably above the total produced in the preceding year. A total of 844,987 ounces of silver and 78,660 pounds of cobalt was recovered during the year, representing increases of approximately 45% and 49%, respectively for these two metals, above the corresponding totals of 1968.

However, the gross value of metal production totalling $1,576,829 was only approximately 25% higher than the value of metal production in 1968 which amounted to $1,259,104. This reflects the lower price received for silver which averaged $1.87 per ounce in 1969 compared to $2.16 per ounce in 1968.

The principal sources of silver production during 1969 were the Tailings Mill, Agnico 407, 96 Shaft and the Penn-Canadian property. As shown in the Mine Manager's Report, operations at the Tailings Mill which continued over a period of some five and a half months from the end of May to mid-November, were appreciably improved from those experienced during 1968, both in the tons treated and the extraction effficiency.

Operating results for the three months ended March 31, 1970, continued on a satisfactory level. A total of 17,665 tons of ore was treated, principally from the 96 Shaft and the Penn-Canadian units, from which 358,682 ounces of silver were recovered. Gross value of metals produced amounted to $716,258 and the operating profit at the mine for this period totalled $433,567. The latter figure does not include administrative and other costs and is before deduction of non-cash write-offs. The figures for this period are subject to audit.

Development Work

The 96 Shaft unit which commenced production early in 1969, has demonstrated good productivity. It is interesting to note that the cumulative recovery from the 96 Shaft to date is in the order of 400,000 ounces of silver, well in excess of the forecast made last summer. Currently, one of the three stopes being worked underground is producing above average grade of ore.

The Penn-Canadian property has similarly exceeded earlier expectations with a total of over 230,000 ounces recovered, the substantial portion obtained during the first quarter of 1970. Test work and sampling of veins in the old workings has given encouraging results which appear to be potential production zones. Access to this property is gained from the Glen Lake Silver Mines' shaft. The Glen Lake property was recently acquired under a lease arrangement and initial examination of the workings has indicated a number of headings contain mineable ore.

Exploration by underground drilling is continuing from the workings of the leased Trout Lake #2 Shaft in South Lorrain Township, about 30 miles south of Cobalt. This program is designed to test the Trout Lake property as well as adjacent properties owned by Agnico Mines Limited.

Acknowledgements

The capable work of the technical personnel and mine employees, and the continued loyal support of the shareholders is gratefully acknowledged by the Directors.

On behalf of the Board of Directors,

"PAUL PENNA"
Managing Director

June 12, 1970

BALANCE SHEET *as at December 31, 1969*

(With comparative figures as at December 31, 1968)

ASSETS

CURRENT ASSETS:

Cash

Smelter settlements outstanding, at estimated net realizable value

Concentrates on hand, at estimated net realizable value

Investment in shares of Eagle Gold Mines Limited, at subsequent sale proceeds

Marketable securities, at lower of cost or market (market value 1969 — $12,252; 1968 — $168,48

Accounts receivable

Prepaid expenses and deposits

Supplies, at average cost

INVESTMENTS:

Shares of Eagle Gold Mines Limited, at cost (market value — $1,490,000)

Shares of wholly owned subsidiary companies, at nominal value (Note 1)

FIXED ASSETS:

Buildings, machinery and equipment (Note 2)

Less: Accumulated depreciation

Mining properties (Note 3)

DEFERRED DEVELOPMENT EXPENDITURES, less amortization

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Bank loan, secured

Accounts payable and accrued liabilities

SHAREHOLDERS' EQUITY:

Capital Stock

Authorized — 5,000,000 shares, par value $1 each

Issued and Fully Paid — 3,434,327 shares

Less: Discount thereon

Deficit

The accompanying notes form an integral part of these financial statements.

AGNICO MINES LIMITED

(Incorporated under the laws of the Province of Ontario)

1969	1968
$ 65,429	$ 47,150
688,847	402,612
50,750	71,581
289,027	—
12,252	155,909
22,972	19,962
41,633	52,517
21,101	28,154
$1,192,011	$ 777,885
$ —	$ 265,160
2	2
$ 2	$ 265,162
$2,172,447	$2,097,153
1,911,670	1,741,317
$ 260,777	$ 355,836
341,061	341,061
$ 601,838	$ 696,897
$ 334,600	$ 198,538
$2,128,451	$1,938,482
$ 100,000	$ 50,000
85,822	76,261
$ 185,822	$ 126,261
$3,434,327	$3,434,327
1,053,650	1,053,650
$2,380,677	$2,380,677
438,048	568,456
$1,942,629	$1,812,221
$2,128,451	$1,938,482

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Agnico Mines Limited as at December 31, 1969 and the statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL,
Chartered Accountants.

Toronto, Ontario,
June 9, 1970.

Approved on behalf of the Board of Directors:

PAUL PENNA, Director.

NORMAN B. SHERIFF, Director.

AGNICO MINES LIMITED

STATEMENT OF INCOME

For the year ended December 31, 1969
(With comparative figures for the year ended December 31, 1968)

	1969	1968
REVENUE:		
Production of metals	$1,576,829	$1,259,104
Less: Marketing expenses	109,094	79,302
	$1,467,735	$1,179,802
Royalty income	62,817	48,817
Custom milling	5,711	50,823
	$1,536,263	$1,279,442
EXPENSES:		
Mining and development	$ 555,555	$ 502,467
Milling	459,837	355,392
Transportation of ore	35,882	37,566
Administration	59,880	58,497
Depreciation — tailings mill	138,148	92,374
— other	52,555	33,734
Amortization of deferred development expenditures	115,673	39,359
	$1,417,530	$1,119,389
Less: Sundry income	$ 16,402	$ 13,713
Profit on sale of securities	50,454	6,122
	$ 66,856	$ 19,835
	$1,350,674	$1,099,554
INCOME BEFORE EXTRAORDINARY ITEM	$ 185,589	$ 179,888
Loss on subsequent sale of investment in shares of Eagle Gold Mines Limited	55,181	—
NET INCOME FOR THE YEAR (Note 4)	$ 130,408	$ 179,888
EARNINGS PER SHARE:		
Income before extraordinary item	5¢	5¢
Net income for the year	4¢	5¢

STATEMENT OF DEFICIT

For the year ended December 31, 1969
(With comparative figures for the year ended December 31, 1968)

	1969	1968
BALANCE, beginning of year	$ 568,456	$ 748,344
Net income for the year	130,408	179,888
BALANCE, end of year	$ 438,048	$ 568,456

The accompanying notes form an integral part of these financial statements.

AGNICO MINES LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended December 31, 1969

(With comparative figures for the year ended December 31, 1968)

	1969	1968
Source of Funds:		
From operations:		
Income before extraordinary item	$ 185,589	$ 179,888
Add: Items not involving a current outlay of funds		
Depreciation — tailings mill	138,148	92,374
— other	52,555	33,734
Amortization of deferred development expenditures	115,673	39,359
	$ 491,965	$ 345,355
Disposal of fixed assets	3,482	2,800
Subsequent sale of investment in shares of Eagle Gold Mines Limited	289,027	—
	$ 784,474	$ 348,155
Application of Funds:		
Deferred development expenditures	$ 251,735	$ 164,509
Purchase of fixed assets	99,126	94,305
Investment in shares of Eagle Gold Mines Limited	79,048	—
	$ 429,909	$ 258,814
Increase in Working Capital	$ 354,565	$ 89,341
Working Capital, beginning of year	651,624	562,283
Working Capital, end of year	$1,006,189	$ 651,624

The accompanying notes form an integral part of these financial statements.

AGNICO MINES LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1969

1. Subsidiary Companies:

   The accounts of the subsidiaries, Cobalt Properties Limited and Medusa Mines Limited, have not been consolidated herein because the companies are inactive.

2. Buildings, Machinery and Equipment:

   Buildings, machinery and equipment are valued on the basis of an appraisal made by Dominion Appraisal Company Limited on May 8, 1953, with subsequent additions at cost.

3. Mining Properties:

   Mining properties acquired at the time of incorporation of the company are carried at a nominal value of $1. Subsequent additions are at cost.

4. Income Taxes:

   No provision for income taxes is required because of deductions available for tax purposes.

5. Post Balance Sheet Events:

   Eagle Gold Mines Limited (Eagle), a company having a gold mining property in the Joutel area of the Province of Quebec, has recently decided to defer bringing its property into production in view of increased cost estimates and the currently existing market price of gold. Eagle has discontinued construction of its required mining facilities and has negotiated settlement of the amounts due to its suppliers.

   To fund such settlements and the maintenance of its property on a care and maintenance basis, Eagle has arranged debt financing in the amount of $800,000 and further equity financing by way of private placement of treasury shares in the additional sum of approximately $250,000. Upon payment to all its suppliers Eagle will effect a shut down of its mine and secure its existing plant and facilities until such time as the economic conditions warrant the continuance of its programme to bring the mine into production.

   The directors of Agnico Mines Limited, some of whom are directors of Eagle have agreed at a directors' meeting held on June 8, 1970 to loan Eagle the sum of $800,000 by purchasing securities consisting of $800,000 in Eagle debentures and warrants to purchase 800,000 shares. The debentures will have a term of 5 years, bear interest at the rate of 1½% above a Canadian Chartered Bank prime interest rate in effect from time to time, and will be secured by a first charge on all real and immovable property of Eagle Gold Mines Limited. The warrants will be exercisable at $1.00 per share for the first three years and at $1.50 per share for the next two years.

   Pending receipt by Eagle of the above noted equity financing, the directors of Agnico Mines Limited have authorized an unsecured demand loan by the company to Eagle in an amount up to $150,000 at an interest rate of 1% above a Canadian Chartered Bank prime interest rate in effect from time to time. $103,000 of such loan has been advanced to Eagle.

6. Comparative Figures:

   Certain 1968 figures have been reclassified to conform with the presentation adopted for 1969.

7. Other Statutory Information:

   Aggregate direct remuneration of directors and senior officers (as defined by The Corporations Act) is $70,663.

MANAGER'S REPORT

The President and Directors,
Agnico Mines Limited,
Suite 1101 — 365 Bay Street,
TORONTO 1, Ontario.

March 18, 1970.

Gentlemen:

I am pleased to submit the following report covering the operation of Agnico Mines Limited for the year ended December 31st, 1969.

PRODUCTION

Production during the year was provided by 407 Shaft, 96 Shaft, Penn-Canadian property and tailings reclamation. The combined production totalled 844,987 ounces of silver which is up considerably from 1968. The main source of production is from 96 Shaft while Penn-Canadian production is exceeding earlier expectations.

The following is a comparative summary of the main production items:

	1969	1968
Ounces silver produced	844,987	583,126
Pounds cobalt produced	78,660	52,800
Gross value of metals sold	$1,576,829	$1,259,104
Gross value per ounce of contained silver	$1.87	$2.16
PENN MILL		
Total tons milled from company properties	35,525	33,384
Custom ore milled	1,215	12,181
Total tons milled	36,740	45,565
Total tons hoisted	35,307	36,408
Calculated head ounces silver/ton	17.14	14.36
Recovery ounces silver/ton	16.12	13.12
Extraction efficiency	94.05%	91.36%
TAILINGS MILL		
Total tons tailings milled	151,323	81,530
Calculated head ounces silver/ton	2.70	2.81
Recovery ounces silver/ton	1.79	1.78
Extraction efficiency	66.30%	63.35%

EXPLORATION AND DEVELOPMENT

96 SHAFT — Development headings on the 4th, 5th, and 6th levels were driven out to the ore zones previously indicated by diamond drilling. Drifts on the 4th and 5th levels encountered high grade silver shoots which continue to produce rich ore in the stoping operations above the level. The drift on the 6th level encountered low grade silver at this horizon but as stoping operations progressed above the level the vein turned to high grade.

Development work on the third level has just begun on a zone that will provide future silver production.

Diamond drilling has indicated several small branch veins in the area now being worked. Future drilling will continue to explore the favourable cobalt sediments in this same general area.

PENN-CANADIAN PROPERTY — Diamond drilling on this property which is located south of 407 Shaft and north of Glen Lake Mine, indicated a small but rich vein near the old workings. The decision was taken to rent the shaft and hoisting facilities of Glen Lake Mine in order to gain access to the underground workings.

Development work has proven the vein to be much richer than initial drilling indicated. Further drilling has intersected two more ore zones in this area which are now being developed.

407 Shaft — Two small stopes were being worked at the end of July when production was temporarily stopped in order to employ the labour force to better advantage at the Penn-Canadian property. Mining operations will resume here at a later date and exploration drilling will then probe the Nipissing diabase sill for the upward extension of former producing veins.

Trout Lake No. 2 Shaft — The property is located in South Lorrain Township and has a shaft to the 350 foot level with a winze continuing from this level to a further depth of 500 feet at the Keewatin-Diabase contact.

A surface hoisting plant was installed and the underground workings were pumped out.

A diamond drill programme has been started to systematically explore this property and the adjacent properties owned by Agnico Mines. Surface diamond drilling has intersected strong calcite vein structures which will be further tested by underground drilling at a more favourable horizon for silver deposition. Drilling from the underground workings has been confined to exploring cobalt-calcite veins previously developed in the winze levels. Short range drilling will continue until the visible mineralized areas have been thoroughly tested.

The following is a tabulation of this exploration and development:

	1969 Footage	Unit Cost	1968 Footage	Unit Cost
Crosscutting & Drifting	3,720.5	$43.39	2,309.5	$33.25
Raising	1,076.5	23.77	867.7	25.65
U/G Diamond Drilling	48,597	3.85	42,489	3.66
Surface Diamond Drilling	4,140	6.61	—	—

TAILINGS RECLAMATION PROJECT

The tailings mill was operated from the end of May to the middle of November at near capacity tonnage. The mill feed was supplied by truck haulage which resulted in a much larger tonnage being milled during this operating season.

GENERAL

Special Expenditures in 1969 Were:

Trout Lake #2 Shaft — An electric hoist, 1000 CFM compressor and sub-station were installed. A combined hoist and compressor building was constructed.

Ore Reserves — As of the end of December 1969, there is stockpiled on surface 11,536 tons of ore averaging 23.0 oz/ton and a further 13,958 tons of broken reserves underground averaging 25.0 oz/ton.

Labour Relations — A new labour contract was negotiated with the United Steelworkers of America for a period of two years effective July 1, 1969. This provides a wage increase of 25¢ per hour July 1, 1969 and a further 18¢ per hour July 1, 1970.

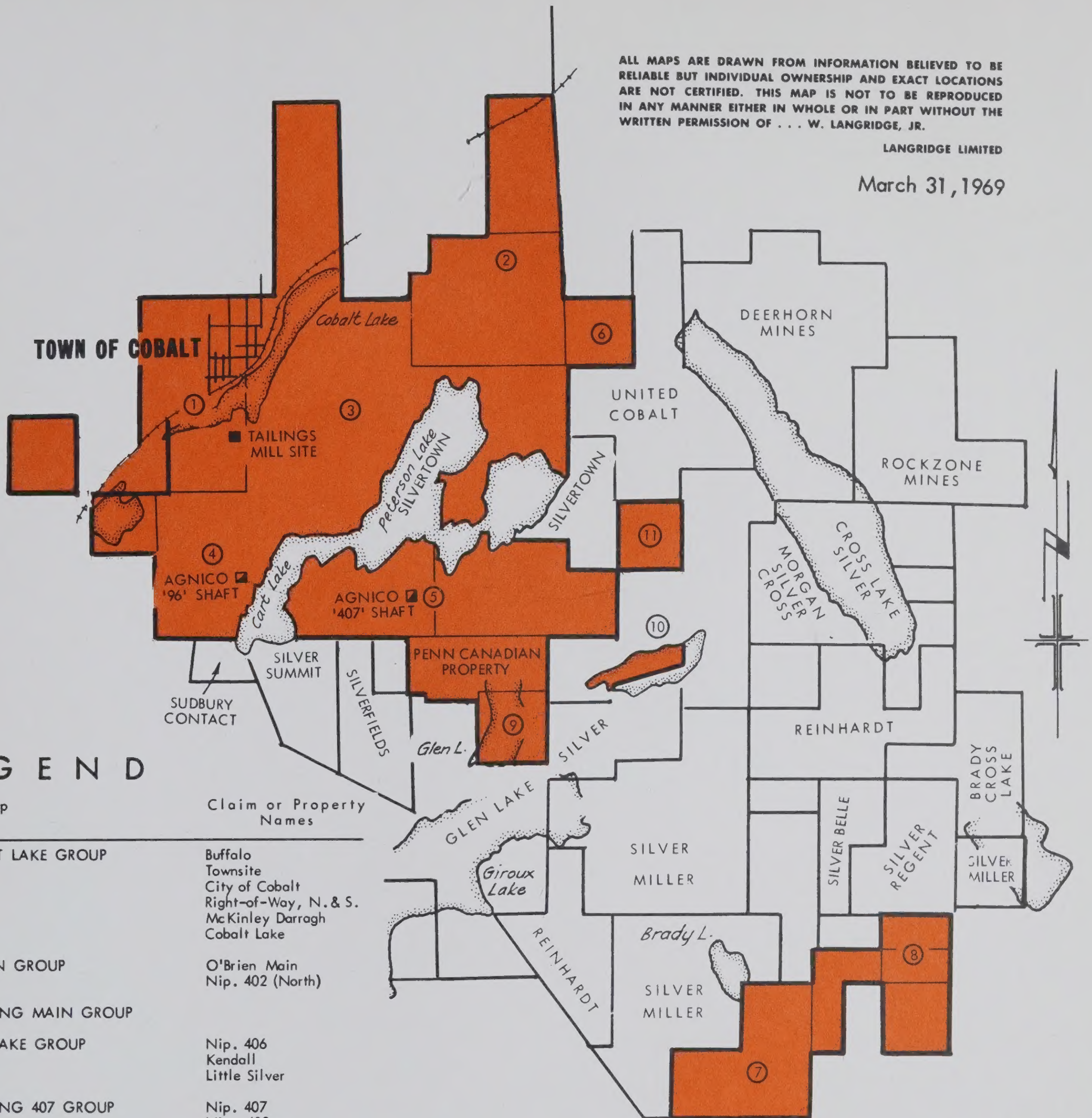
I should like to extend my appreciation to the Board of Directors, staff and employees for their kind co-operation throughout the year.

Respectfully submitted,

AGNICO MINES LIMITED,

G. W. KIRK,
Manager.

March 31, 1969



LEGEND

No. Group	Claim or Property Names
1. COBALT LAKE GROUP	Buffalo Townsite City of Cobalt Right-of-Way, N. & S. McKinley Darragh Cobalt Lake
2. O'BRIEN GROUP	O'Brien Main Nip. 402 (North)
3. NIPISSING MAIN GROUP	
4. CART LAKE GROUP	Nip. 406 Kendall Little Silver
5. NIPISSING 407 GROUP	Nip. 407 Nip. 408 Penn Canadian Michigan Cobalt
6. NIPISSING EAST GROUP	Nipissing East Claims O'Brien East Claims Colonial
7. LODE-CHRISTOPHER GROUP	Adanac Columbus
8. BEAVER TEMISKAMING GROUP	Temiskaming Gifford Quaker City
9. FOSTER	Mill Site
10. CROWN RESERVE	
11. FARAH	
12. AGAUNICO GROUP (Not shown on map)	Agaunico Ruethel
13. DOTSEE "	Yorkshire Cobalt
14. GILGREER "	Canadian Lorraine
15. KEYLODE "	Currie Wettlauffer

AGNICO MINES LIMITED

HOLDINGS in the COBALT SILVER AREA

ONTARIO

0 ———— 1 mile

Printed in Canada.